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UNCLAS SECTION 01 OF 03 OTTAWA 001125

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USDOC FOR 4320/ITA/MAC/WH/ONIA -- WORD

DOE FOR INT'L AND POLICY, IE-141 (DEUTSCH) AND BPA (ATKINS)

EPA FOR OFFICE OF THE ADMINISTRATOR, INTERNATIONAL AFFAIRS
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SUBJECT: CANADA UNVEILS CLIMATE CHANGE STRATEGY:
MOST CALL IT TOO VAGUE, TOO LATE

REF: (A) OTTAWA 1020 (B) OTTAWA 0824 (C) OTTAWA 0995

SUMMARY

1. ON APRIL 13 CANADA ANNOUNCED ITS LONG-AWAITED STRATEGY TO MEET ITS GREENHOUSE GAS EMISSION REDUCTION COMMITMENTS UNDER THE KYOTO PROTOCOL. MOST PLAYERS ACKNOWLEDGE THAT CANADA'S KYOTO TARGET (EMISSIONS SIX PERCENT BELOW 1990 LEVELS BY 2012) IS NO LONGER ATTAINABLE, IF IT EVER WAS. THE NEED TO MAINTAIN A COMPETITIVE INDUSTRY ENVIRONMENT VIS-VIS THE UNITED STATES WAS A MAJOR CONSTRAINT IN CRAFTING THE PLAN, BUT GOC ENVIRONMENT MINISTER STEPHANE DION BRAVELY TOUTS THE ECONOMIC, TECHNOLOGICAL AND ENVIRONMENTAL BENEFITS OF REDUCING EMISSIONS.

2. THE STRATEGY (FULL TEXT AT WEBSITE CLIMATECHANGE.GC.CA) IS THE RESULT OF A MAJOR EFFORT BY DION TO OVERCOME OPPOSITION AND SKEPTICISM, TAKE RENEWED AIM AT THE KYOTO TARGET, AND BUILD CREDIBILITY AS HE ATTEMPTS TO ENGAGE INTERNATIONAL PARTNERS - ESPECIALLY THE UNITED STATES - IN A "BEYOND KYOTO" DIALOG. HOWEVER, INITIAL REACTION TO THE STRATEGY WAS SKEPTICAL TO NEGATIVE. EXPERTS EXPRESSED DISAPPOINTMENT AT THE LACK OF DETAIL, PARTICULARLY GIVEN THAT THIS POLICY HAS BEEN UNDER DEVELOPMENT THROUGHOUT THE GOVERNING LIBERAL PARTY'S ELEVEN-PLUS YEARS IN POWER. PRESS CRITICIZED THE PROSPECT OF BUYING EMISSION CREDITS FROM ABROAD (TRADING "TAXPAYER DOLLARS FOR THIN AIR") AND ALLEGED THAT THE PLAN PUT MORE BURDEN ON INDIVIDUALS AND HOUSEHOLDS THAN ON INDUSTRY.

3. THE ANNOUNCEMENT COMES WHILE THE LIBERAL PARTY MINORITY GOVERNMENT IS REELING FROM SCANDAL AND OPPOSING PARTY ATTACKS (INCLUDING OVER A KYOTO-RELATED LEGISLATIVE MEASURE - REF C), AND MAY FACE AN ELECTION WITHIN 90 DAYS. AS SUCH, THE GOC CAN BE EXPECTED TO USE THE CLIMATE CHANGE ISSUE IN AN EFFORT TO GO ON THE POLITICAL OFFENSIVE, PARTICULARLY AGAINST ITS CONSERVATIVE PARTY RIVALS. END SUMMARY.

THE CHALLENGE

4. WHILE ITS TECHNOLOGICAL LEVEL IS SIMILAR TO THE UNITED STATES, CANADIANS CONSUME OVER 20 PERCENT MORE ENERGY PER CAPITA, DUE TO THE COUNTRY'S LONG TRANSPORT DISTANCES, COLD CLIMATE, AND ENERGY-INTENSIVE RESOURCE-BASED INDUSTRIES (ENERGY PRODUCTION, FOREST PRODUCTS, MINING AND METALS). CANADA'S EMISSIONS IN 1990 WERE ABOUT 596 MEGATONNES (CO2 EQUIVALENT) AND ITS KYOTO COMMITMENT - TO REDUCE THIS BY SIX PERCENT BY 2008-2012 - WOULD BRING THIS TO AROUND 560 MT. BUT IN 2003, BY THE GOC'S OWN ADMISSION, EMISSIONS WERE ABOUT 740 MT, OR 24 PERCENT ABOVE 1990 LEVELS. IN SHORT, REQUIRED REDUCTIONS THAT WERE CALCULATED AT ABOUT 240 MT IN 2002 - AND EVEN THEN CONSIDERED UNATTAINABLE BY MANY - HAVE RISEN CONSIDERABLY.

PLAN ELEMENTS

5. MAJOR, MULTI-YEAR FUNDING FOR EMISSIONS REDUCTION WAS RENEWED AND UPDATED IN THE GOC'S FEBRUARY BUDGET. REFS A AND B DESCRIBED THE GOC'S VOLUNTARY AGREEMENT WITH AUTO MANUFACTURERS, ANNOUNCED ON APRIL 5, UNDER WHICH THE COMPANIES COMMIT TO REDUCE GREENHOUSE GAS EMISSIONS FROM CANADA'S ENTIRE VEHICLE FLEET BY 5.3 MT BY 2010. THE APRIL 13 ANNOUNCEMENT ATTEMPTED TO FILL IN MORE OF THE PICTURE.

6. LARGE FINAL EMITTERS: LFE'S (MOSTLY IN ENERGY, MINING AND MANUFACTURING) ACCOUNT FOR ABOUT HALF OF CANADA'S GREENHOUSE GAS EMISSIONS. THE GOC'S STRATEGY REMAINS VAGUE, DESCRIBING COMPANIES' OPTIONS FOR

COMPLIANCE. THE GOC CLAIMS THAT IT IS MEETING AN OLD PROMISE TO LFE'S - THAT THEIR COST OF COMPLIANCE WILL NOT EXCEED C\$15 (ABOUT US\$12) PER TONNE OF CO2 EQUIVALENT. THE CURRENT TARGET FOR REDUCTIONS BY LFE'S IS 45 MT ANNUALLY.

17. EMERGING RENEWABLE ENERGY: THE GOC WILL ENCOURAGE WIND, SOLAR AND TIDAL POWER THROUGH A VARIETY OF MEASURES, WHICH "COULD" CONTRIBUTE ABOUT 15 MT OF ANNUAL REDUCTIONS.

18. CLIMATE FUND: THE GOC PROMISES "A PERMANENT INSTITUTION FOR THE PURCHASE OF EMISSIONS REDUCTION AND REMOVAL CREDITS" BOTH IN CANADA AND ABROAD. THE GOVERNMENT ESTIMATES THAT THE FUND "COULD YIELD IN THE ORDER OF 75-115 MT OF REDUCTIONS ANNUALLY WITH FUNDING IN THE ORDER OF C\$4-5 BILLION." WHILE PRIORITY WILL BE GIVEN TO FINDING DOMESTIC REDUCTIONS, "IT IS NOT POSSIBLE TO PREDICT HOW MANY OF THESE REDUCTIONS WILL OCCUR DOMESTICALLY."

19. PARTNERSHIP WITH PROVINCES: THE GOC WILL CREATE A FUND TO INVEST IN TECHNOLOGIES AND INFRASTRUCTURE DEVELOPMENT THAT ARE IMPORTANT TO PROVINCIAL GOVERNMENTS, SUCH AS CLEAN COAL TECHNOLOGY, CO2 CAPTURE AND STORAGE, ETHANOL, AND EAST-WEST POWER TRANSMISSION FACILITIES (THE LATTER IS ALREADY TOUTED AS A WAY TO HELP THE PHASE-OUT OF COAL-FIRED POWER PLANTS). HOPED-FOR REDUCTIONS ARE 55-85 MT ANNUALLY BY 2008-2012, WITH CUMULATIVE FEDERAL FUNDING IN THE ORDER OF C\$2-3 BILLION.

110. OTHER ELEMENTS WITH SMALLER EXPECTED REDUCTIONS (OR NO ESTIMATES) INCLUDE GREENING GOVERNMENT OPERATIONS, ENGAGING CITIZENS TO REDUCE INDIVIDUAL AND HOUSEHOLD EMISSIONS, BETTER AGRICULTURE AND FORESTRY PRACTICES, AND PARTNERING WITH CITIES TO BUILD URBAN TRANSIT INFRASTRUCTURE.

REACTION NEGATIVE

111. THE GOC'S APPROACH TO CLIMATE CHANGE HAS BEEN UNDER ATTACK FROM ALL PARTS OF THE POLITICAL SPECTRUM FOR YEARS, MAINLY DUE TO THE LONG DELAY IN PRODUCING A COMPREHENSIVE PLAN TO MEET THE KYOTO TARGET - WHICH HAS SHORTENED THE TIME FRAME FOR ACTION, MAKING THE TARGET HARDER TO ATTAIN, WHILE CREATING UNCERTAINTY FOR INDUSTRY. THE GOC'S PROMISE THAT THE COST OF COMPLIANCE FOR LARGE FINAL EMITTERS WOULD NOT EXCEED C\$15 PER TONNE WAS AN EARLY EFFORT TO ADDRESS THE UNCERTAINTY PROBLEM.

112. REACTION TO THE APRIL 13 STRATEGY ANNOUNCEMENT WAS NEGATIVE ACROSS THE BOARD. INDUSTRY AND ENVIRONMENTAL NGO EXPERTS, MANY OF WHOM HAVE WORKED WITH THE GOC ON CLIMATE CHANGE POLICY FOR MORE THAN A DECADE, EXPRESSED DISMAY AT THE ONGOING LACK OF DETAIL. THE CANADIAN CHAMBER OF COMMERCE ISSUED A GENERAL CONDEMNATION OF THE POLICY, CITING THE ESCALATING COST, POTENTIAL LACK OF ACCOUNTABILITY, AND THE COMPETITIVE CHALLENGES IT WOULD CREATE FOR CANADIAN BUSINESS VIS--VIS OTHER COUNTRIES. THE CHAMBER URGED THE GOC NOT TO PURCHASE EMISSION CREDITS FROM FOREIGN SOURCES. MEDIA REPORTS ZEROED IN ON THE FOREIGN-CREDIT ISSUE AS WELL, DEMANDING ESTIMATES AS TO WHAT PERCENTAGE OF CANADA'S REDUCTIONS MIGHT BE OBTAINED BY "SPENDING TAXPAYER DOLLARS ON HOT AIR." THE MEDIA ALSO CRITICIZED THE MODEST SHARE OF TOTAL REDUCTIONS TO BE OBTAINED FROM LFE'S, IMPLYING THAT MOST OF THE POLICY'S BURDEN WOULD FALL ON HOUSEHOLDS AND CONSUMERS.

113. Opposition politicians - who are in a position to force

an election in coming weeks or months - echoed all these criticisms. The leading opposition party, the Conservative Party of Canada, had already objected in recent weeks to the surprise addition of a Kyoto-related provision in this year's budget legislation, and threatened to defeat it, thus bringing down the Liberal minority government. The Conservatives have weak credibility with voters on environmental issues, however, and backed off. The Conservatives will have to continue to be careful to avoid overt displays of pro-industry, anti-environment sentiment, so as to avoid giving the Liberals useful election campaign ammunition against them.

IMPLICATIONS

114. THE CURRENT POLITICAL UNCERTAINTY SURROUNDING THE GOC'S TENURE COMPLICATES ANY ASSESSMENT OF IMPLICATIONS FOR U.S. INTERESTS. TO THE EXTENT THAT THE CLIMATE CHANGE STRATEGY IS IMPLEMENTED, CANADIAN BUSINESS, AS WELL AS MANY IN GOVERNMENT, CAN BE RELIED ON TO VIGOROUSLY RESIST ITS APPLICATION IN WAYS WHICH INCREASE THE COST OF DOING BUSINESS IN CANADA VIS--VIS THE

UNITED STATES. THE GOC HAS SET ASIDE BILLIONS IN FUNDING FOR THE STRATEGY, WHICH COULD POTENTIALLY COVER A WIDE RANGE OF INFRASTRUCTURE PROJECTS. SOME OF THESE COULD BE OF BENEFIT TO U.S. INTERESTS, SUCH AS ELECTRIC POWER GRID IMPROVEMENTS, BETTER TRANSPORTATION, AND IMPROVED BORDER FACILITIES, NOT TO MENTION THE GENERAL ENVIRONMENTAL BENEFITS TO NORTH AMERICANS OF CLEANER PLANT AND VEHICLE EMISSIONS.

15. A FAVORED THEME FOR ENVIRONMENT MINISTER DION IS THE STRATEGY'S POTENTIAL STIMULUS TO CANADA'S ENVIRONMENTAL TECHNOLOGY INDUSTRY - NOT ONLY ITS DOMESTIC GROWTH BUT ITS EXPORT OPPORTUNITIES (INCLUDING THOSE WHICH COULD POTENTIALLY BE LINKED TO PURCHASES OF FOREIGN EMISSION CREDITS). SINCE CANADIAN AND U.S. FIRMS ARE SO CLOSELY INTEGRATED, TO THE EXTENT THAT THIS STIMULUS OCCURS, U.S. TECHNOLOGIES AND COMMERCIAL INTERESTS ARE LIKELY TO ENJOY SOME OF THE BENEFITS.

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